



WASHINGTON STATE LEGISLATURE
Office of the State Actuary

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TO: Steve Nelsen, Executive Director
LEOFF 2 Retirement Board

FROM: Marty McCaulay, FSA, EA, MAAA, Senior Pension Actuary
Office of the State Actuary

CC: Matt Smith, FCA, EA, MAAA, State Actuary
Office of the State Actuary

**RE: PROPOSED CHANGES FOR FISH AND WILDLIFE ENFORCEMENT
OFFICERS TRANSFER PAST PERS SERVICE TO LEOFF PLAN 2**

This memo presents the results of pricing the proposed transfer of past service credit from the Public Employees Retirement System (PERS) to LEOFF for Fish and Wildlife enforcement officers who were granted prospective membership effective July 2003.

Summary of the proposal

To move eligible past service credit from PERS to LEOFF 2, an employee would be required to make a payment to the retirement system to make up for the difference in contributions, plus interest, that the employee would have made had they been in LEOFF 2 for the period of PERS service that is eligible for transfer. This payment would be made no later than five years from the effective date of the member's election to transfer service. The employee's PERS contributions plus interest and an amount equal to the reduction in PERS fully projected liability from the transfer of service to LEOFF 2, would then be moved from PERS to LEOFF 2 upon completion of the employee's required differential payment, but no earlier than five years after the effective date of the member's election to transfer.

When a member elects to transfer their PERS service credit into LEOFF, the Department of Fish and Wildlife could be responsible to pay an additional amount sufficient to ensure that the contribution level to LEOFF 2 will not increase due to the transfer of the past service. If the employer does not make such a payment, contribution rates would need to increase slightly to cover this liability increase.

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Members Impacted

Of the 95 Fish and Wildlife enforcement officers active as of September 30, 2004, we found 85 who had prior service credit in PERS. Among the Fish and Wildlife active records were a handful of members with more than the approximately 1.2 years of service they could have earned in their current positions since joining LEOFF 2. These members most likely have past service with other LEOFF agencies. There are also a few active members with no past service in PERS because they entered after July 2003. Of the 85 PERS records, we found that seven had PERS 3 membership and 78 had been in PERS 2. All seven PERS 3 members and an additional 48 PERS 2 members were vested in their respective plans. The remaining 30 members were not vested. A demographic summary of the affected members is shown below:

	Count	Average Service (Years)	Average Savings Fund	Average Current Salary*
LEOFF actives	95	1.7	\$5,961	\$54,750
LEOFF actives with PERS service	85	11.4	\$24,002	\$56,141
PERS Service Range (Rounded, in years)				
0 - 2	17	1.2	\$481	\$48,754
3 - 5	14	3.4	\$2,258	\$52,257
6 - 10	9	7.6	\$10,304	\$54,318
11 - 15	15	13.8	\$26,732	\$61,138
16 - 20	15	18.3	\$38,685	\$58,982
21 +	15	23.4	\$61,761	\$61,393

**LEOFF 2 salary, effective September 30, 2004, is used for all records, including PERS inactive records.*

Costs

The liability reduction in PERS due to the proposed transfer is \$3.3 million. This amount is exactly offset by an estimated transfer of assets from PERS to LEOFF 2 of \$3.3 million, which consists of the member contributions with interest for past PERS service, and the liability reduction from transferring the past service to LEOFF 2. Overall, this proposal would result in no cost to PERS.

Adding past service for these members would result in a fully projected liability increase in LEOFF 2 of \$8.8 million. This increase would be mitigated by the \$3.3 million asset transfer from PERS mentioned above, plus an additional \$2.6 million in contributions by members to make up for the differences between PERS and LEOFF historical contributions. Overall, LEOFF plan 2 would see a net fully projected liability increase of \$2.9 million under this proposal.

A summary of costs/(savings) for all parties appears below:

(Dollars are in millions)	PERS 2/3	LEOFF 2	Total
Change in present value of fully projected benefits (The value of the total commitment to all current members)	(-3.3)	8.8	5.5
Assets transferred from PERS to LEOFF 2	3.3	(-3.3)	0.0
Additional member contributions	0.0	(-2.6)	(-2.6)
Net change in present value of fully projected benefits	0.0	2.9	2.9
Payment from Department of Fish and Wildlife and Transferred members (optional)	0.0	(-2.9)	(-2.9)

This \$2.9 million liability increase could either be absorbed by the LEOFF 2 plan or paid by the employer and the transferred members. If the Department of Fish and Wildlife and the transferred members do not cover the cost, the contribution increase and resulting fiscal impact to the plan are shown below.

Increase in Contribution Rates*: (Effective 09/01/2006)	
Current Members	
Employee	0.01%
Employer	0.01%
State	0.00%
New Entrants	
Employee	0.00%
Employer	0.00%
State	0.00%

**If optional Department of Fish and Wildlife payment is not made.*

Fiscal Costs (in Millions):	LEOFF 2
2006-2007	
State:	
General Fund	\$0.0
Non-General	<u>\$0.0</u>
Fund	
Total State	\$0.0
Local Government	\$0.1
Total Employer	\$0.1
Total Employee	\$0.1
2007-2009	
State:	
General Fund	\$0.0
Non-General	<u>\$0.0</u>
Fund	
Total State	\$0.0
Local Government	\$0.2
Total Employer	\$0.2
Total Employee	\$0.2
2006-2031	
State:	
General Fund	\$0.0
Non-General	<u>\$0.0</u>
Fund	
Total State	\$0.0
Local Government	\$2.0
Total Employer	\$2.0
Total Employee	<u>\$2.0</u>

If the Department of Fish and Wildlife and the transferred members contribute the \$2.9 million, then the net cost to the plan would be zero.

Assumptions

We do not have data on how much past PERS service was earned specifically in enforcement with the Department of Fish and Wildlife. We assume for this pricing that all past PERS service is eligible for transfer to LEOFF.

We assume that this service transfer is only available to active Fish and Wildlife enforcement officers and that every active member who is eligible to transfer past PERS service credit to LEOFF 2 will do so. It is also assumed that once a member elects to transfer service from PERS to LEOFF, he or she will not retire or otherwise voluntarily terminate for the following five years.

We assume that the contribution required to be deposited to LEOFF 2 by the employer of the affected members will come from the increase in the unfunded projected benefit obligation (PBO) for the past service transferred less other asset transfers and member contributions required under the proposal. Because the affected members all currently have LEOFF 2 membership, all of the liability increase comes from service earned in the past. Since the PBO increase exceeds the increase in fully projected benefits (PVFPB), we assume the employer would contribute the minimum of these two measures.

All other assumptions are consistent with the assumptions disclosed in the 2003 LEOFF 2 Actuarial Valuation Report.

Other Considerations

We determined that the contribution required from Fish and Wildlife and transferred members was \$2.9 million. This amount resulted in no cost impact to LEOFF 2. If this amount had been based on the unfunded PBO, it would have been greater than \$2.9 million and resulted in a cost savings to LEOFF 2. We limited the amount to the change in the Present Value of Fully Projected Benefits.

We assume that all eligible members will transfer their past PERS service to LEOFF 2. If the actual experience shows that significantly fewer than 100 percent opt to transfer, then the cost of this proposal would change.

We further assume that all past PERS service for the members in question is eligible for this transfer. If appreciably less service is transferrable to LEOFF 2, then the cost of this proposal would change.